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THRIVING IN DISRUPTIVE TIMES

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Understanding and learning from the past has always been central to Walter Scott's investment research and decision making. Making investments with a long-term time horizon requires, we think, an in-depth understanding of past financials and operating resilience through industrial cycles and all kinds of economic conditions. That belief in the value of historical analysis and perspective was also reflected in the agenda for our recent Research Conference in Edinburgh where three professors of financial history took to the stage as part of the two-and-a-half-day programme. One of those, Professor Adam



PROFESSOR ADAM TOOZE

Professor Adam Tooze is the Director of the European Institute at Columbia University and a columnist at *Foreign Policy* and the *Financial Times* amongst other publications. He is also the author of 'Crashed: How a Decade of Financial Crises Changed the World' and 'Shutdown: How Covid Shook the World's Economy'.

Tooze, a highly regarded academic, commentator and author on both sides of the Atlantic shared his thoughts on the challenges we face today, their significance when judged over history, and where there might be grounds for optimism. This is an extract from his conference speech.

The term ‘polycrisis’ refers to the many disparate intertwined challenges that face the world. It’s not a new term but it’s a powerful way to understand the unrelenting challenges facing the world and the notion that the social, political and economic changes we are seeing today might not be like anything we have seen before.

“The notion of the ‘polycrisis’ forces us to face the prospect that we should not expect a return to the sort of normality that we’ve become accustomed to”

These challenges should not be regarded as a series of exogenous, random shocks that will pass. The notion of the ‘polycrisis’ forces us to face the prospect that we should not expect a return to the sort of normality that we’ve become accustomed to during the period since the late 1990s, that Ben Bernanke referred to as the “Great Moderation”.

We have to take the challenges of this moment of disruption seriously. There is no single causal driver, but instead there are multiple and distinct sources of tension, which can be defined as:

creative destruction of economic growth; disruptive technological change; mounting geopolitical tension; political conflict; and the environmental crisis.

These drivers are distinct from each other. For example, if we manage to solve geopolitical tensions, we could still have a huge environmental crisis on our hands. On the other hand, they also compound each other; if we fix the economic growth problem, it’s very likely to make the environmental problem worse.

“As globalisation continues, the next confrontations will be even larger in their scope as the scale and pace becomes unprecedented”

Another feature is the scale and pace of the crises. We are not the first people in history to deal with ideological confrontation, but an important point is that modern history is escalatory. As globalisation continues, the next confrontations will be even larger in their scope as the scale and pace becomes unprecedented. There has never been a state that is as large, as populous and as powerful as the current Chinese regime, and none that has ever confronted an opponent as powerful as the United States, the preeminent military superpower in the history of our species. And there is also a new element running alongside the consequences of this new cold war; the imminent reality of the climate crisis, something which is on a scale that we have never previously had to face.

The ‘polycrisis’ concept is not a radically new concept to describe the current moment, it extends back to the early 2000s. I borrowed the phrase from Jean-Claude Juncker, who used

it to describe the challenges facing Europe between 2014 and 2015. While he used it with Europe in mind, the term carries resonance across the world. China has referred to these challenges as “changes not seen in a century”. The United States wraps all of these tensions into a story about the crisis facing the American republic.

The idea of the ‘polycrisis’ is also linked to the ecological crisis; the term was invented by Edgar Morin. It is a reflection of the ramifications of what environmental scientists call the ‘great acceleration’ which began in the middle of the 20th century. The ‘polycrisis’ is something we see coming over the horizon. In the case of the environment, it’s an anticipation that 50 years from now very large parts of the world will be uninhabitable unless people have massive amounts of thermal insulation and air conditioning.

“To fully grasp the escalatory nature of modern history would require us to grasp the nettle of radical socio-economic change”

To fully grasp the escalatory nature of modern history would require us to grasp the nettle of radical socio-economic change, something that is at odds with the conservatism that has held since the end of the 20th century. Also, socio and economic disciplines have a credibility problem in deriving powerful conclusions from environmental premises. That dates back 200 years to Thomas Malthus, who argued that population growth will always tend to outrun the food supply and that betterment of humankind is impossible without strict limits on reproduction. This was refuted by the agricultural revolution, the industrial revolution and the

planet of eight billion people today enjoying a much higher standard of living than ever before.

Our monolithic focus on climate distracts us from the multiplicity of problems that we face. I would count the Covid pandemic as an environmental crisis. It was caused by a zoonotic virus, the result of the imbalance of the urban and rural milieu in China. As well as killing millions of people, it created an economic shock of epic scale; underlining the point about the escalatory nature of modern history. The lockdowns in 2020 led to a 20% collapse in global GDP in a matter of weeks. During the Great Depression, GDP in Germany and the United States fell by the same amount, but took three years to do so.

“The Covid vaccine was a remarkable triumph, but we also failed to distribute those vaccines to very large slices of humanity”

You have to go a very long way out in the climate hypotheses to find scenarios as bad as the one that we actually just lived through. The Covid vaccine was a remarkable triumph, but we also failed to distribute those vaccines to very large slices of humanity. This is a political and social challenge. We are not going to be effective in stopping a more dangerous pandemic in the future unless we can get a jab in every arm.

So with all due respect to the extraordinary capacity for innovation that the world economy has displayed, we should also be aware of our limitations.

For example, we use the phrase ‘energy transition’ like it’s something we’re about to do. But we have never done an energy transition before. In fact, energy history is about agglomeration, not substitution or transition. We have just added more energy sources. There are

no grounds for complacency based on our prior experience.

In Europe and the United States, we will need to reduce co2 emissions by 1.5% per quarter, or 7% per annum in order to achieve net zero by 2050. That requires investment of around \$4 trillion per annum globally for the next decade. That would represent between 4% and 5% of global GDP. That figure is achievable but the problem is that we are 75% below where we need to be. Last year renewable energy investment hit a new record of \$1.1 trillion.

“Households in the United States spend more on feeding and treating cats and dogs than governments globally spend on all energy research”

We need to show greater commitment and urgency when trying to tackle this problem. In 2018, government sponsored energy research and development hit \$30 billion globally. American households spend \$35 billion on pet foods and treats for cats and dogs alone. So, households in the United States spend more on feeding and treating cats and dogs than governments globally spend on all energy research.

Climate is the central element of ‘polycrisis’ and the biggest political problem we have collectively ever faced. It requires us all to collaborate at a global level, in initiatives like carbon pricing. But we must face the reality that the world has fragmented, and the result is a series of regional mega-solutions. We don’t have the global institutions in place, nor do we have the time to develop them. China, Europe and the US are pursuing their own policies. But this approach is inefficient because capital operates at

a global level. It’s also likely to enhance conflict between the blocs because it’s becoming entangled. Plus, the solution is not in our hands. The West is no longer the biggest consumer of energy, as it was during the 1990s.

“The good news is that these macro-regional investments are beginning to drive investment on quite a significant scale”

But the good news is that these macro-regional investments are beginning to drive investment on quite a significant scale in both the public and private arenas. This suggests that it is possible to thrive in this environment once we grasp and disassemble the key elements we are dealing with.

There could be no more compelling evidence of the value of working together than the estimate from the White House Office of Science and Technology Policy that it would cost just over \$24 billion to have prototype vaccines ready for each of the 26 known viral families that cause human disease. It’s hard to find a better use of public funds or a better way leveraging the skills of science and the achievements of Operation Warp Speed, one of the great triumphs of the Trump presidency which through the combined efforts of European, Asian and American scientists produced the vaccines which allowed us all to meet at this conference. How much more proof do we need of the value of this kind of working together? That seems to me where intelligence thriving in the age of ‘polycrisis’ could show itself.

This is an extract from a speech given by Professor Adam Tooze at Walter Scott’s Research Conference in Edinburgh on 11 May 2023.



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